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**FISCAL IMPACT STATEMENT**

**LS 6036**

**BILL NUMBER:** HB 1074

**NOTE PREPARED:** Feb 19, 2007

**BILL AMENDED:** Feb 19, 2007

**SUBJECT:** Earned Income Tax Credit.

**FIRST AUTHOR:** Rep. Day

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** (Amended) The bill repeals the expiration date for the Earned Income Tax Credit, and increases the credit to 9% of the Federal Earned Income Tax Credit.

**Effective Date:** January 1, 2008.

**Explanation of State Expenditures:** (Revised) *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes in this credit. The DOR's current level of resources should be sufficient to implement this change.

*Earned Income Tax Credit (EITC) Refunds:* The refundable portion of the Indiana Earned Income Tax Credit that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as Maintenance of Effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the current 6% EITC could potentially total about \$11.0 M to \$12.0 M annually. This is based on simulations utilizing state taxpayer data for tax years 2003 and 2004. Increasing the EITC from 6% to 9% is estimated to increase refunds to about \$21.0 M to \$23.0 M annually (an increase of about \$10.0 M to \$11.0 M in refunds per year). However, the amount of the refund total that could potentially be claimed by TANF participants is indeterminable.

**Explanation of State Revenues:** (Revised) *Summary:* The bill could potentially reduce revenue from the Individual Adjusted Gross Income (AGI) Tax by approximately \$28.2 M to \$29.1 M in FY 2009. The potential annual fiscal impact from FY 2009 to FY 2013 due to this bill is reported in the table below. The revenue loss estimated for FY 2009 to FY 2012 is attributable to increasing the Earned Income Tax Credit

(EITC) from 6% to 9% in tax years 2008 to 2011. Under current statute, the EITC expires on December 31, 2011. Therefore, the fiscal impact beginning in FY 2013 reflects the potential total cost of the 9% EITC.

	Estimated Revenue Loss (in millions) from . . . .		
Fiscal Year	6% EITC	9% EITC	Add'l. Revenue Loss (in millions)
2009	56.5 - 58.0	84.7 - 87.1	28.2 - 29.1
2010	60.1 - 61.7	90.1 - 92.6	30.0 - 30.9
2011	63.8 - 65.6	95.8 - 98.4	32.0 - 32.8
2012	67.9 - 69.8	101.9 - 104.7	34.0 - 34.9
2013	0	108.3 - 111.3	108.3 - 111.3

*Background Information:* The bill increases the current EITC from 6% to 9% of the federal EITC beginning in tax year 2008, and eliminates the sunset provision that applies to the EITC in current statute. Under the sunset provision, the EITC expires on December 31, 2011.

Federal income tax return data for tax year 2004 indicates that the federal EITC was claimed by almost 435,000 federal income tax filers residing in Indiana. This total was about 2.1% above the 2003 total. The federal credits claimed in 2003 totaled about \$756.6 M, increasing by about 5.3% over 2003 credits. Annual growth in filers claiming the EITC in recent years (1999 to 2004) has averaged about 4.0%, with the growth in the credits claimed averaging about 6.3% annually. State income tax return data for tax year 2004 indicates that 411,000 Indiana taxpayers claimed the 6% state EITC, with total credits claimed equal to about \$44.2 M. This is only the second year of state tax return data on the 6% state EITC. Estimates of the revenue loss from the EITC are based on growth rates derived from the federal series and 2004 credit totals derived from federal and state tax return data.

Revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** OFMA Income Tax Databases, 2003-2004; U. S. Internal Revenue Service, Statistics on Income, <http://www.irs.gov/taxstats>.

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